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SUBJECT: JAMAICA: IMF STANDBY FACILITY APPROVED

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Summary

¶1. (SBU) After a series of missed deadlines, the Government of Jamaica (GOJ) finally has secured a deal with the International Monetary Fund (IMF). On February 4, the IMF approved a USD 1.27 billion Standby facility for Jamaica, opening the door for a further USD 1 billion in funding from other multilateral institutions. This is the first bit of positive news for the embattled Jamaica Labour Party (JLP)-led government and should lead to a recovery in confidence, especially as ratings agencies are expected to upgrade the country's credit ratings once the Jamaica Debt Exchange (JDX) is executed on February 16 (Reftel A). However, the extent of the recovery will depend on the GOJ's ability to control the fiscal deficit, which continues to spiral out of control due to declining revenues. End summary.

IMF Approves Standby Agreement

¶2. (SBU) After almost a year of intense negotiations, on February 4 the IMF finally approved Jamaica's request for a 27 month USD 1.27 billion Standby facility. The agreement immediately opens the door for the GOJ to draw down USD 650 million or just over 50 percent of the total loan amount. The remainder of the funds will be disbursed in quarterly tranches providing the GOJ achieves the targets, including a number of legislations and the sale of a number of loss making entities, outlined in the letter of intent. Most notable, is the sale of Air Jamaica to Caribbean Airlines (Reftel B).

Triggers Additional Funding

¶3. (SBU) The IMF approval will pave the way for the GOJ to access at least another USD 1.1 billion in funding from the other multilateral institutions over the same 27 month period. Of this amount, the Inter-American Development Bank will provide USD 600 million, the World Bank USD 400 million and the Caribbean Development Bank USD 50 million. Almost USD 700 million of this amount will be disbursed immediately. The European Union, which publicly congratulated the GOJ following the announcement yesterday, is also expected to provide grant funding for fiscal support.

JDX Progresses

¶4. (SBU) The IMF deal also came on the back of news that the JDX had garnered almost 97 percent support up to February 4. The offer, which had been set to close on January 26, has been extended to February 23 to accommodate retail bondholders. However, the GOJ has made clear that late applicants will not receive any material benefit. The JDX swaps JMD 701 billion in domestic debt at rates of up to 28 percent for bonds averaging 12.25 percent at extended maturities. The exchange is expected to save the government JMD 40 billion, or almost 3 percent of GDP each year, and to reduce by up to 65 percent the amount of debt maturing in the next three years.

Comment

¶5. (SBU) The long awaited IMF approval is the first piece of positive news received by the embattled GOJ in over a year. However, Minister of Finance Audley Shaw has suggested the IMF deal is the first element of a long process, which should culminate in the complete restructuring of the economy. He noted that the JDX in particular is a game changing opportunity given the expected

decline in interest rates, which should divert credit from the GOJ to the private sector. And the exchange already has led to a decline in Treasury Bill rates, which dipped by 430 basis points to 12.5 percent, prompting some banks to reduce loan rates to 17 percent. The ratings agencies also have signaled their intention to upgrade the country's credit ratings to investment grade once the JDX is executed on February 16. However, the economic recovery will depend on the GOJ's ability to arrest the fiscal deficit, which has spiraled to almost 13 percent of GDP on the back of falling revenues. End comment.
Parnell